

A Work Project, presented as part of the requirements for the award of a
Master Degree in Management from the NOVA School of Business and Economics

MANAGEMENT CONSULTING LABS – PROJECT TAP

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4 July 2011

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Abstract

The purpose of this study was to investigate the impact on revenues and to elaborate some high level strategies for TAP given future full establishment of a recent competitor of the commercial airline industry in Lisbon.

The analysis was done through an analytical model to determine past/present impact and from that to stipulate the future impact on revenues.

Several surveys were conducted to identify passengers' key decision factors in order to establish reasons for churn and retention.

Based on the result five strategic guidelines were designed to minimize the impact on revenues.

Keywords: Impact; Competitor; Analytical model; Retention

1. Brief context

1.1. The client

The company is in the airline industry and is the Portuguese flagship carrier owned by the State. Like most of the companies owned by the government also TAP has a heavy structure (13.397 full time employees)ⁱ with slow bureaucratic procedures.

1.2. The industry

This industry is characterized by low operational margins and growth rates which are positively correlated to the economy or GDP of countries in which airline companies operate. The industry is highly dependent on exterior factors that influence its cost and revenues. Such factors are the variable price of fuel, the trade of Brent or Crude. Other factors are natural catastrophes like the volcano eruption in Iceland, in April 2010, that produced an ash cloud which lead to the closure of air space. This cloud had heavy

impact on revenuesⁱⁱ of the airline industry, not just due to unrealized revenue but also on additional cost of liquidated damages.

Given the liberalization of the world economy and the respective liberalization of the skies, flagship carriers have been facing new challenges: more competition between them, but also with entrance of new players with different cost structures, namely the low cost carriers. Low cost carriers, which focus on short haul flights, made these operations very unattractive to flagship carriers. Given the economic growth of developing countries like the BRICS (Emerging markets namely Brazil, Russia, India, China and South Africa), the demand of long haul flights increased and is currently served by flagship carriers. Flagship companies have been turning more and more to long haul flights to guarantee financial sustainability. Our client is still in a restructuring process, the implementation of a new strategy to face current market conditions. Thus, TAP is not in the best conditions to maximize its privatization value as foreseen by the government and troika (Troika is composed by the International Monetary Fund, the European Central Bank and the European Commission) in 2011ⁱⁱⁱ.

1.3. The challenge

We were assigned to determine the financial impact on TAP's operations and thus possible strategies based on the permanent establishment in 2011 of a new base in Lisbon by a recent player. This player already has operations in Lisbon and intends to increase them. The new player has a different business model and a different customer value proposition.

2. Reflection on content

2.1. Problem definition

2.1.1. What was the challenge? Why was it relevant?

The challenge posed by the client was to quantify the financial impact or value at risk due to the new player and possible guidelines in order to respond or to minimize its impact. The competitor has a different business model thus resulting in a competitive advantage based on a different cost structure. The strategic guidelines of the team should be given at high level with some practical, actionable measures.

The first question of the client, value at risk, was important to know whether it is worse responding to the new player or not. Also to justify possible additional costs linked to the responds, meaning to show to superiors of TAP why the extra cost of e.g. 1€ in marketing actions could save 10€ in revenues. Its relevance is based on the absolute value suffered, that gives a degree of urgency of the respective response from TAP, as urgency given to future entrants with the same business model as the competitor. Apart from urgency, the value should also foresee on which product the loss was the highest and on which product the loss would be particular relevant if the competitor came to offer that product. Last but not least, the value should help to determine key success factors of customer retention based on variables of the product offered by TAP.

The second question was related to recommendations, we should determine high level strategies with some practical solutions or actions to minimize or reduce the financial impact. Its relevance for the client is to know whether to increase or reduce certain products, which products, by what extent and to optimize its pricing strategy. Also to know what kind of marketing actions to take to better retain as re-conquer passengers as what are the key messages and to whom they should be directed.

2.1.2. What could have been defined differently?

The main objective of the work project (WP) was to establish the value at risk for the client, based on a recent competitor with expanding operations. This fact made the WP highly analytical. Me, as the team, weren't able to demonstrate or use much of our creativity acquired at NOVA. In my opinion the WP would have been more interesting if more practical solutions would be drawn instead of determining for most of the time the value at risk and only spending little time on recommendations.

2.2. Hypothesis, analysis and work

2.2.1. What was the original approach?

The first meeting with the client was on the 14th of February 2011. Our WP started on the 15th of January though. Given that our team had a month before actually meeting the client, this time was used to do some qualitative as quantitative research about the competitor as to establish some work guidelines. Our team preferred a structured approach towards work and schedule. We created a schedule which foresaw to work together from Monday to Friday from 10:00 to 16:00 hours. This schedule changed from the first meeting with TAP to 10:00 to 18:00 hours. We also tried to analyze some patterns about the competitor. The whole WP was organized according to a work plan with respective milestones to achieve. Even before meeting with the client we already had a question list for some employees or experts of different departments of TAP and a required data list which was necessary for an optimal and most efficient analysis.

After the first meeting with the client, I and the team had the impression that the client didn't really take us serious. It seemed as we were seen as "just another round of students" that were doing their thesis at TAP's facilities. Somehow I comprehend this feeling, since our client receives a lot of students who do very theoretical thesis with

very little practical application for them. Though it frustrated me, since I weren't able to demonstrate some of the preliminary analysis done, I recalled the "Formula of Trust" which Professor Gustavo Brito had taught:

$$\text{Trust} = \frac{\text{Empathy} \times \text{Reliability} \times \text{Credibility}}{\text{Self-interest}}$$

I saw the creation of trust as an additional challenge. It was then that we decided to always dress in a formal business suit, for the image to be the least that the client could criticize. As the project evolved we understood that our client, who belonged to a recent department of the organization, had internal disputes within the organization. These disputes and possible lack of credibility, made it difficult for the client to get to some required information. Also was it difficult to schedule interviews with other areas for us before we had proven anything or established trust.

The team decided to start with the question, value at risk, posed by the client. To predict a more accurate value, the team divided the question into two sub questions which were again divided into another set of sub questions. These first sub questions were divided into impact already suffered (past impact), and impact yet to suffer (future impact). These questions were then again divided into impact suffered from new products offered by competitor and increased offer of existing products by competitor. In order to establish the past impact, we first tried to understand which particular products offered by TAP most decreased its revenues in the past. For that we needed to cross two different data bases (excel) which the client gave to us. While one data base registered among hundreds of variables the offer and demand, another data base registered among many different variables the flown revenue. Since both data bases had some common variables e.g. date and time. We linked the data bases together into just one data base on the ground of the common variables. While two team members were trying to link the

data bases together, the two other members were researching events regarding competition, events such as entrants or exit of competitors, increased or decreased offer by competitors. This qualitative data was important to understand why at a given space in time the revenue, price, profitability, offer or demand increased or decreased. Once the above mentioned was done, we were able to show on a chart when, which, how and why a specific product changed in revenue conditioned by price, demand, offer and profitability. Along these analysis many sub questions appeared, often we needed to resolve these questions first to be able to proceed with the analysis. Certain assumptions needed to be proven so that the whole analysis would stand alone due to a fact based study. The Nova team did many brainstorming sessions regarding what were the required information to prove a given assumption and how it was best to get to that information. These sessions took, in my opinion, longer than in professional consultancy. I say so since the group often thought without any assistance from any expert or manager and so the sessions took much longer than if we would have had someone with expertise in the airline industry. Professor Gustavo Brito was very helpful for us to validate our thinking and to help us on the many times where we were stuck and couldn't proceed the work. Nevertheless Professor Gustavo Brito was not always present unlike in real consultancy.

2.2.2. How did it evolve over time? Why?

At the beginning of the project, I thought that the main or only factor affecting TAP's revenues would be a possible drop in price. After our analysis we discovered that also a second variable which we hadn't foreseen was affecting significantly the drop of TAP's revenues. As the project proceeded we found a stream of increased revenue which was caused or enhanced due to the competitors' entrance. Since the original question posed

by TAP was to determine the value at risk, the team now needed to find an approximate value for this revenue in order to deduct it from the overall losses caused by the competitor.

Along the work project the prioritization of the different work fronts changed. While at the beginning we were very focused on the analytical work fronts, towards the end we were more interested in the qualitative work fronts which could give us some consumer insights and, therefore lead us to better recommendations.

At the start of the project, different work fronts were created and distributed along the group. This fact turned the work time more efficient since several problems were being solved at the same time. At the end of the week everyone would brief their colleagues about findings and the work was put together. This methodology changed over time. After the first progress review another set of work fronts were established, this time more than one person was working on the same work front. One of these work fronts was very distant from all others since it required work out of the office. The team was having less interaction, less information sharing and some tension due to new sub questions was visible among our group. This tension created very undesirable, heavy work environment which lead to less productivity within our team. After the second progress review, having some deadline pressure gone, I decided to reunite the group and to speak openly about existing conflicts. Everybody agreed on improving work environment and appreciated the fact that everyone would try harder to better get along to increase productivity. The group climate improved and all team members were willing to do a little extra effort so that everybody within the team would understand what was exactly done by each individual.

On the first meeting with the client all deadlines with respective achieved milestones were set up. We agreed to two intermediate progress reviews on which the client would give us feedback, as possible extra information or changes required and one final progress review where the whole WP would be presented.

On the first progress review the Nova team was able to positively impress the client. This was relatively easy since the client wasn't expecting much from our WP:

Satisfaction = Reality – Expectations

In this sense the team was able to set up some trust. Also the team decided to invite the client over the following weeks to have lunch or coffee, in order to speak about something else than work and, therefore to create empathy. These invitations were always declined by the client due to too much work at hands.

2.2.3. What added most value?

The fact that the team was able to impress the client with the first progress review added a lot of value to the project, since we weren't seen as "just another round of students" anymore. The insights of Professor Gustavo Brito were also very important in terms of value creation. These insights were important in technical terms but also on the base of soft skills. On the one hand Professor Gustavo Brito gave us technical support as guidance along the project thus we were able to increase productivity and value added to the client. This was very evident not only on problem solving discussions but especially when it came to set up excel spreadsheet and power point presentations. On the other hand, he taught us which questions we should expect when presenting our progress reviews and how to best answer these. I was very impressed when the client asked the precise questions that Professor Gustavo Brito had foreseen. Thanks to Professor Gustavo Britos' guidance, the team was able to explain these questions with

additional power point slides which were done to better proceed with the explanation of our findings. He gave valuable leadership on how to best establish trust as some practical examples on what language to use or how to interact with the client to increase perceived trust.

2.2.4. What could have been done differently?

The different work fronts which were set up required different skills from each individual of the team. Nevertheless some work fronts were holistic regarding the WP while others were very exclusive on a particular issue at hand. This fact made it difficult for everyone of the Nova team to understand what was being done at each moment in time. If the team had discussed once a week for 3 hours what and why was being done by each member, I believe it could have contributed to increase productivity. Therefore different inputs could have contributed to a faster problem solving. On the other hand would these 3 hours spend on team information be 3 hours without production.

Another occurrence which was a valuable learning experience was that the team had no natural leader. Everyone within the team was equal to each other, though some rotative project manager was elected every two weeks. Moreover, each member thought that their work front was the most important, being very focused on their work instead on the WP as a whole. I think a leader could have positively contributed to division of tasks, interaction, group thinking and organization resulting in higher productivity.

For the WP and our client, the fact that we did three different kinds of customer surveys, added a lot of value. Thanks to the surveys, we were able to do passenger profiling: identifying different segments with different needs to be targeted in a customized way to best retain them.

In my opinion the project would have been more interesting if its main focus wouldn't have been on generating numbers. The client wanted us mainly responding how high the value at risk was and from which products they were suffering these impacts. I understand that TAP needed to know these values and that those are extremely important to know so that they can respond in a more appropriated way. Nevertheless the value creation for TAP and for the Nova team would have been higher if we found out that the value at risk was high and then try to focus more time to find ways to minimize or reduce this value.

2.3. Recommendations

2.3.1. What are the key messages?

The first key message for the client is that we were able to determine the approximated value at risk. This value demonstrates how urgent it is to act in order to prevent, minimize or reduce the actual as well as the future impact but also to implement some pre-emptive strategies to reduce the competitor's willingness to increase their future offer. The Nova team was able to draw 5 strategic guidelines or recommendations for TAP which intend to minimize possible losses in a reactive but also proactive way. The strategic guidelines are high-level recommendations with some practical applications or actions in order to be implemented.

1. The first strategic guideline we recommended intended to increase additional revenues caused indirectly by the entrance of the competitor.
2. The second recommendation is linked to communication. TAP should fight its competitor based on key decision factors identified from the surveys conducted to TAP's passengers and also to passengers of its competitor. The right communication

mix could enable TAP to re-conquer lost passengers since we found that a significant amount of passengers have wrong perceptions about key decision factors.

3. The third recommendation is for TAP to implement more effective customer segmentation as customization of their product offer.
4. The fourth guideline is bound to pre-emptive strategies which intend to discourage the competitor to enter or at least to enter less aggressively thus reducing the financial impact on TAP's revenues.

These four guidelines aren't mutually exclusive. All of them should be implemented. The strategic guidelines have a short term horizon, meaning that their implementation should happen quick as their results should be visible very fast.

5. The fifth guideline has a medium or long term horizon. Although it should be implemented quickly, its benefits will occur over the long run. This recommendation is linked to the implementation of further studies and customer analyses as the one done by the Nova team. Given that each product has very different consumers, more market intelligence or Customer Relationship Management should be implemented to better respond to the market and its changing needs.

2.3.2. Concerns with implementation and other comments?

I am sure that our recommendations if implemented will add a significant amount of value to our client. Nevertheless they need to be implemented very fast. The competitor will further enter the market by the end of 2011 and some recommendations only make sense to implement before the full entrance of the player. Given that the organization is very heavy and bureaucratic, it will possibly take too much time from the moment a decision is being made, until its implementation. This is my personal main concern.

During the WP we were given a room apart from all other TAP employees. I think TAP could have retained more of the whole process, from analysis until recommendations if they would have put someone to work once or twice a week together with us. This person could have been a trainee or recently hired employee. Apart from being beneficial for TAP, also the Nova team would have benefited from the presence of this individual to help constructing a bridge between us and the TAP team.

3. Reflection on learning

3.1. Previous knowledge

Several courses which I took at Nova were very useful for the WP. In the course of Competitive Strategy, we discussed several Harvard Business Cases about the airline industry. These cases were focused on competition, pre-emptive strategies, war of attrition and about the industry in general. They turned out to be very useful since the knowledge acquired had practical implications as gave us some notions along the WP. We also applied game theory to the WP. We had learned about game theory in the course of Analysis of Industry and Competition. From this course also the Cournot and Bertrand Equilibrium were useful since we saw them happening during our analysis for the client.

From the course of Statistics for Managers, we applied several quantification models and techniques. We conducted several surveys which we were able to treat with the processes acquired in the course.

The course of Corporate Finance taught us to bear in mind additional revenues caused by exterior factors like the entrance of a competitor. This was fundamental since it occurred in the case we analysed.

Finally, we applied some marketing concepts to the WP. The most important concepts were the Product, Price, Place and Promotion when drawing some recommendations. It was the knowledge which I acquired in the course of Marketing in a Dynamic World which had to be most adjusted. The course had a very holistic view over the world, its practical examples were about brands which acted with one voice, one campaign over the whole world. In our WP we recommended that TAP should use much customized communication messages which target different segments. For that reason the course content needed to be adjusted since different passengers were having different key decision factors.

3.2. New knowledge

3.2.1. Tools, methodologies and frameworks

During the WP, Professor Gustavo Brito taught us several McKinsey consulting methodologies and frameworks which we constantly applied during the project.

One of the most important rules was the “80/20” concept. It meant that with 20% of effort, 80% of outcome could be achieved. If one would continue analysing each problem beyond the 20% effort rule, one would only be able to increase little outcome for an increasing input of effort. The concept is very important since it maximizes outcome versus input of work. Through this we were able to do many analysis which were not 100% accurate very quick thus increasing our productivity.

Leading us directly to another concept, the “*Approximately right, instead of absolutely wrong*” rule. Given our analysis we knew that we weren’t being 100% accurate but that the main idea or answer was approximately right. By this mean we were able to confirm that our analysis was heading towards the right direction. It was important since the

recommendations or our most important output for the client would not have changed if the analysis would have been 100% accurate.

3.2.2. Communication

The “*Pyramid Principle*” through which we conducted our analysis, taught us to analyse the problems through a top – down approach. Even before starting a given analysis, we would ask ourselves, what is the “so what” of this question? How does its outcome add value? Essentially, we always kept in mind the big picture instead of drilling in too deep without making sure the added value would be significant. The “*Pyramid Principle*” also applied to presentation. Professor Gustavo Brito explained us, that it helped to bind the listener to the presentation but would also enable him to easier follow the presentation as explanations of certain analysis.

Another concept is the “*Power Point Presentation*” these slides have to be self explanatory. Meaning they have to survive even after the Nova team leaves without anyone present to explain them. These communication skills were linked to “*Story Line / Story Telling*”. The power points as presentations were set up in a way that the whole WP seemed like one big story which flew naturally. It helped the client to understand the whole WP much faster in a natural way. The headings chosen for each power point would be the same sentences used in the executive summary, often the next power point heading would be the continuation of the power point heading before. Today the client can look only at the headings and read a story from them. Also are the slides self explanatory. This means that possible existing doubts are explained on the slide thus making them easy to understand.

3.2.3. Client and team management

The “*Trust Formula*” which is very logic, made a lot of sense to me. The client must feel some empathy to foster trust. The team needed to be reliable, so that the client could rely or trust in our analysis. Our approach was very analytical and had been verified over and over before presenting it to the client, this made the analysis credible. Also given that we easily could explain any question or doubt that occurred from the client.

Last but not least, it's key for the client to understand that we were doing our WP to help them. The variable of self-interest is absolutely key. Once the client understood that our project would help them look good in front of their superiors their availability to work with us changed. This variable was build after credibility as reliability was proven, the variable of self-interest also enhanced the empathy between the client and the Nova Team. I think it is very interesting to look back and to see how these variables affected the perceived trust the client had in us. It started with the idea of “just another round of students” to the invitation of the Vice President to our final presentation which ended with employment offers to our team.

The “*Work Front Planning*” was done through the “*Divide and Conquer*” method, build on a timeline. Before starting to work together and with assistance of the Professor, we would establish different objectives or milestones to be achieved within a specific time frame. Then each group member would work on a specific task which would complement each other once they were done. The work splitting allied with a timeline and orientation from Professor Gustavo Brito increased efficiency as productivity for the WP.

I learned how the 360° Evaluation is elaborated. The “360° evaluation” is based on input from superiors, in this case the Professor, from clients, in our case TAP and from our peers, meaning my colleagues. Not only should one always give constructive feedback, which include both strength and development needs. The feedback model is specific, meaning that one should mention what was good or what needs improvement with a particular example, eg. “On day x Individual y ...”. In this way, the model is fact based and easier to understand to whom receives feedback. Also it should be given in an objective way, following actionable suggestions. Personally, I find this model very well thought since it is very complete and elaborated in a way which makes it very tangible and easy to understand.

3.3. Individual reflection

3.3.1. Strengths and weaknesses

Based on the 360° evaluation which I received from Professor Gustavo Brito by the end of the project, I have several strengths though also development needs.

My strengths are that I am strong at problem solving by identifying issues and speaking up. In the view of others I do so by using my business sense and logic, trying to find holes in other peoples arguments or assumptions.

Another strength is practical judgment, by thinking of the “so-what’s” using creativity and out of the box reasoning when it comes to solutions.

My professional attitude is positive since showing total commitment as getting self motivation by willing to do whatever it takes to get the job done.

My development needs are that I can get of on a tangent when at problem solving. It implies that I dig in too deep on an idea which is not the most relevant when analysing the big picture.

Regarding analytics, I miss some structure and clarity when putting ideas on paper or excel. Linked to the same point my written communication would benefit if it would be simpler, clearer and cleaner. Often I had too much information on a page, of which not all was relevant but created some confusion at first sight.

My biggest development need is the interaction with others or regulation of own style. Being very driven, I sometimes pay too little attention to how others express their feelings as I always try to convince or persuade others by using logic. Being a logic person, I assume that others are too. While there are more appropriate techniques to use depending on the character one is talking to.

3.3.2. Development needs

To be very sincere, the strength as the development needs weren't known to me, though the way they were communicated was. I know and want to change the way I sometimes interact with others. I have read some books about "how getting to yes" or "body language", but must admit that I haven't been very successful in applying these techniques. I hope that my future employer will teach me about effective communication methods, but I also want to visit a summer course about how to communicate more effectively. I am aware that without effective communication I won't be a good manager, therefore it was very useful to hear this constructive critic again.

3.3.3. Consultancy and my future

I can't say totally sure whether I see myself or not as future business consultant. For me it's important that I will do something in which I will be able to learn and grow professionally. At the same time I don't want the job to be boring or too theoretical. I

think I will try something more tangible and practical first, if I will be disappointed with that experience than I surely will turn to consultancy next.

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